



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
PULASKI COUNTY SHERIFF**

Calendar Year 1997

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.STATE.KY.US/AGENCIES/APA**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Darrell Beshears, County Judge/Executive
Honorable Sam Catron, Pulaski County Sheriff
Members of the Pulaski County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Sheriff of Pulaski County, Kentucky, the statement of assets, liabilities, and fund balances arising from cash transactions, and the statement of revenues, expenditures, and changes in cash balances for Pulso Leasing, Inc. (Note 1.A), for the year ended December 31, 1997. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff is required to prepare the financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the receipts, disbursements, and excess fees of the Sheriff, and the assets, liabilities, and fund balances arising from cash transactions and the revenues, expenditures, and changes in cash balances for Pulso Leasing, Inc., for the year ended December 31, 1997, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable Darrell Beshears, County Judge/Executive
Honorable Sam Catron, Pulaski County Sheriff
Members of the Pulaski County Fiscal Court

Based on the results of our audit, we have presented a schedule of Comments and Recommendations, included herein, which discusses the following areas of noncompliance:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- A Total Of \$302 Of Expenditures From Pulso Leasing, Inc. Are Disallowed

In accordance with Government Auditing Standards, we have also issued a report dated December 8, 1998, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 8, 1998

PULASKI COUNTY
SAM CATRON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1997

Receipts

Federal Grants		\$	40,243
State Grants			2,404
State Fees For Services:			
Finance and Administration Cabinet	\$	19,950	
Cabinet For Human Resources		<u>1,621</u>	21,571
Circuit Court Clerk:			
Sheriff Security Service	\$	28,347	
Court Ordered Payments		<u>20,591</u>	48,938
Fiscal Court			8,406
County Clerk - Delinquent Taxes			9,263
Commission On Taxes Collected			331,139
Fees Collected For Services:			
Auto Inspections	\$	26,810	
Accident /Police Reports		5,349	
Serving Papers		<u>40,888</u>	73,047
Other			
Bank Security Patrol	\$	13,695	
Adanta Security		35,970	
Transporting Prisoners		15,266	
Executions		7,900	
Concealed Weapon Applications		31,155	
Miscellaneous		<u>919</u>	104,905
Interest Earned			6,664
Borrowed Money:			
State Advancement			<u>184,976</u>
Gross Receipts (Carried Forward)		\$	<u>831,556</u>

PULASKI COUNTY
 SAM CATRON, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1997
 (Continued)

Gross Receipts (Brought Forward)			\$ 831,556
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Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Gross Salaries	\$ 249,030		
Other Gross Salaries	15,109	\$ 264,139	

Contracted Services-

Advertising	\$ 350		
Storage/Tower Rental	3,970		
Processing Tax Bills	1,000		
Maintenance Agreement	475		
Office Equipment Maintenance	1,730	7,525	

Supplies and Materials-

Office Materials and Supplies	\$ 11,442		
Interrogation Supplies	1,174		
Uniforms	1,649	14,265	

Other Charges-

Conventions, Training, and Travel	\$ 4,212		
Executions	7,317		
Concealed Weapon Applications	22,121		
Telephone	9,433		
Film and Developing	2,347		
Postage	10,168		
Bond	6,122		
Transfer of Fugitives	7,356		
Membership Dues	1,050		
Subscriptions	1,243		
Jury	178		
Storage Rental	485		
Miscellaneous	922	72,954	

Payment to County Treasurer		20,902	
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Auto Expense-

Vehicle Lease		130,399	
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Helicopter Expense-

Maintenance	\$ 5,646		
Fuel	2,826		
Insurance	7,106	15,578	

PULASKI COUNTY
 SAM CATRON, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1997
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:
 (Continued)

Capital Outlay-

Office Equipment	\$	13,300	
Radio Equipment		13,816	
Communication Equipment		4,335	
Guns and Ammo		7,329	
Law Enforcement Equipment		16,557	
Interrogation Equipment		1,985	
Auto Equipment		<u>15,215</u>	\$ 72,537

Debt Service:

State Advancement	<u>184,976</u>
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Total Disbursements	<u>\$ 783,275</u>
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Net Receipts	\$ 48,281
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Less: Statutory Maximum	<u>47,899</u>
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Excess Fees Due County For Calendar Year 1997	\$ 382
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Payments to County Treasurer - December 5, 1998	<u>382</u>
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Balance Due At Completion of Audit	<u>\$ 0</u>
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The accompanying notes are an integral part of the financial statement.

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PULSO LEASING, INC.
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS

PULSO LEASING, INC.
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
 AS OF DECEMBER 31, 1997

ATTACHMENT I

Cash	\$ 13,131	
Due From Sheriff - Unallowed Expenditures	<u>302</u>	
Total Assets		\$ 13,433
Other Resources:		
Amounts to be provided in future years for automobile purchases		<u>21,422</u>
Total Assets and Other Resources		<u>\$ 34,855</u>
<u>Liabilities and Equity</u>		
Notes Payable		\$ 34,855
Fund Balances:		
Reserved		<u>0</u>
Total Liabilities and Equity		<u>\$ 34,855</u>

The accompanying notes are an integral part of the financial statement

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PULSO LEASING, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN CASH BALANCES

PULSO LEASING, INC.
 STATEMENT OF REVENUES, EXPENDITURES, EXPENDITURES, AND CHANGES IN
CASH BALANCES

CALENDAR YEAR ENDED DECEMBER 31, 1997

Revenues:

Automobile Rental Receipts (Sheriff's Department)	\$ 130,399	
Insurance Reimbursements	6,951	
Restitution	298	
Interest	<u>55</u>	\$ 137,703

Expenditures:

Auto Maintenance and Gas Expense	\$ 87,002	
Vehicle Registration	2,160	
Life Insurance Expense (Automobiles)	1,776	
Kentucky Corporate Taxes	93	
Tax Preparation	275	
Miscellaneous	<u>1,582</u>	\$ 92,888
Debt Service:		
Principal	\$ 43,329	
Interest	<u>5,469</u>	<u>48,798</u>
Total Expenditures		<u>141,686</u>
Excess (Deficiency) of Revenues		
Over (Under) Expenditures		\$ (3,983)
Cash - Balance January 1, 1997		<u>17,114</u>
Cash - Balance December 31, 1997		<u><u>\$ 13,131</u></u>

The accompanying notes are an integral part of the financial statement

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT
Calendar Year 1997

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of the Pulaski County Sheriff include the funds, agencies, boards, and entities for which the Sheriff is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Government Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Pulso Leasing, Inc. as part of the reporting entity.

1. The organization was set-up specifically to provide police cruisers for the Pulaski County Sheriff's Department and will be dissolved when the Sheriff leaves office.
2. The organization is fiscally dependent on the Sheriff's Office. The receipts of the organization come primarily from the Sheriff's Office from rental of automobiles at (twenty-six) 26 cents per mile.
3. The expenditures made by Pulso Leasing, Inc. were for the purchase of cruisers, maintenance of cruisers, and gas for the cruisers that are being used by the Pulaski County Sheriff's Office for law enforcement.
4. The Sheriff has the ability to modify and approve the budget of the organization.
5. The Sheriff can impose his will on the organization, influence the programs, projects, activities, and level of services provided by Pulso Leasing, Inc.
6. The bookkeeper that is responsible for administering the books of Pulso Leasing, Inc. is paid out of the Sheriff's fee account. The Sheriff does not pay any salaries out of the Pulso Leasing, Inc. entity.
7. The Sheriff appoints the voting majority of the organizations government body.
8. The Sheriff has continuing appointment authority.
9. The Sheriff can abolish the organization.
10. The vehicles owned by Pulso Leasing, Inc. are titled and registered in the name of the Pulaski County Sheriff's Office in care of Pulso Leasing, Inc.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT
Calendar Year 1997
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

C. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

D. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent. Hazardous covered employees are required to contribute 7.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.69 percent.

PULASKI COUNTY
 NOTES TO FINANCIAL STATEMENT
 Calendar Year 1997
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3 Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the Sheriff.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	<u>\$ 621,876</u>

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT
Calendar Year 1997
(Continued)

Note 4. Notes Payable – Pulso Leasing, Inc.

Pulso Leasing, Inc. is liable for secured notes payable to First & Farmers Bank in the amount of \$34,855. The purpose of the notes was to acquire police cruisers to be used by the Pulaski County Sheriff's Department. The notes mature upon demand and the interest rates vary for the notes. Pulso Leasing, Inc. is in compliance with the terms of the agreement as of December 31, 1997.

Liabilities of Pulso Leasing, Inc. are:

Description	Purchase Date	Maturity Date	Interest Rate	Principal Amount
1994 Ford Crown Victoria	3/18/94	4/15/98	9%	\$ 1,311
1994 Ford Crown Victoria	5/2/94	5/15/98	9%	4,670
1994 Ford Crown Victoria	3/18/94	4/15/98	9%	3,479
1994 Ford Crown Victoria	5/2/94	5/14/99	9%	4,670
1994 Ford Crown Victoria	3/18/94	4/15/99	9%	3,435
1994 Ford Crown Victoria	3/18/94	4/15/99	9%	3,368
1994 Ford Crown Victoria	3/18/94	4/15/99	9%	3,368
1995 Ford Crown Victoria	5/22/96	12/14/98	9%	4,695
1995 Ford Crown Victoria	7/3/95	7/14/98	9%	2,783
1995 Ford Crown Victoria	7/3/95	7/14/98	9%	3,076
Total				<u>\$ 34,855</u>

Note 5. Law Enforcement Fund

The Sheriff maintains a Law Enforcement Fund for drug money received from drug eradication. This fund had a beginning balance at January 1, 1997 of \$6,129. During the calendar year, operating receipts were \$43,702 and operating disbursements were \$12,660. This left a fund balance of \$37,171 at December 31, 1997. These funds are restricted in their use and are not turned over to the fiscal court as excess fees.

PULASKI COUNTY
SAM CATRON, SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1997

STATE LAWS AND REGULATIONS:

The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$3,159,861; FDIC insurance of \$100,000; and securities pledged of \$3,484,557 as of November 7, 1997. Even though the Sheriff obtained pledged securities of \$3,484,557, the pledge was not evidenced by a written agreement. We recommend the Sheriff enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

The Sheriff stated that their deposits were adequately insured against potential loss and that the auditor's office failed to notify him of the requirement. He stated that he obtained written security agreements with the banks as soon as this was brought to his attention.

A Total Of \$302 Of Expenditures From Pulso Leasing, Inc. Are Disallowed.

Based upon the test of expenditures performed on Pulso Leasing Inc., we determined that \$302 of expenditures disbursed from the entity would be disallowed. These expenditures were for coffee, gift certificates, and a retirement dinner. These items are not reasonable and necessary-operating expenses of Pulso Leasing Inc. We recommend that the Sheriff reimburse Pulso Leasing with personal funds for the disallowed expenditures and that only reasonable and necessary operating expenditures be made out of the Pulso Leasing Inc. account in the future.

Management's Response:

The Sheriff stated that he will reimburse Pulso Leasing Inc. \$302. These expenditures were oversights that were done during the change of clerks and the new clerk did not realize that the expenditures should be paid out of the Sheriff's personal account. However, the Sheriff does not agree that they should be termed disallowed expenditures due to the fact that the leasing company still owes him \$3,000 for interest free loans he advanced to Pulso to keep it afloat.

Auditor's Reply:

On December 4, 1998 the Sheriff deposited personal funds of \$302 to repay the disallowed expenditures.

The Auditor makes no determination in this report as to the underlying legality of the relationships involving Pulso Leasing Inc., the Sheriff as an individual majority shareholder of Pulso Leasing Inc., the Sheriff's office, and the Pulaski County Fiscal Court. However, this matter is being referred to the Office of the Attorney General for its review as to whether such a legal determination is necessary.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Darrell Beshears, County Judge/ Executive
Honorable Sam Catron, Pulaski County Sheriff
Members of the Pulaski County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Pulaski County Sheriff as of December 31, 1997, and have issued our report thereon dated December 8, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pulaski County Sheriff's financial statement as of December 31, 1997, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of Comments and Recommendations.

- The Sheriff Should Have A Written Agreement To Protect Deposits
- A Total Of \$302 Of Expenditures From Pulso Leasing, Inc. Are Disallowed

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pulaski County Sheriff internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Darrell Beshears, County Judge/ Executive
Honorable Sam Catron, Pulaski County Sheriff
Members of the Pulaski County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 8, 1998

